UNIVERSITY OF TORONTO

FINANCIAL SERVICES

TO: Business Board

SPONSOR: Sheila Brown, Chief Financial Officer
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DATE: March 19, 2012 for April 2, 2012

AGENDA ITEM: **6(b)**

ITEM IDENTIFICATION:

Borrowing Strategy annual review

JURISDICTIONAL INFORMATION:

The Business Board approves the financing of capital projects.

PREVIOUS ACTION TAKEN:

The Business Board approved the Borrowing Strategy on June 17, 2004. Additional internal borrowing reserved for pensions, was approved by the Business Board on January 31, 2011. This annual review has been provided to the Business Board for the past several years.

HIGHLIGHTS:

The current borrowing strategy provides for a maximum external borrowing capacity of 40% of net assets averaged over 5 years and maximum internal borrowing capacity of up to $350 million, of which $150 million is reserved for pensions. There is a policy constraint on external borrowing such that if actual external borrowing exceeds 40% of net assets averaged over 5 years, no further external borrowing is permitted until it falls to 33% of net assets averaged over 5 years. There are no constraints related to credit ratings, debt service or debt repayment. Borrowing is managed internally through an internal borrowing programme. An internal sinking fund accumulates funds for repayment of debentures.

The current maximum borrowing capacity (excluding amount reserved for pensions) is $973.1 million, of which. to date, $970.0 million has been allocated to projects by the Business Board. Total actual borrowing to March 31, 2012 was $892.8 million ($724.1 million external and $168.7 million internal). A further $112.6 million of the $150 million reserved for pensions has been borrowed internally.

In short, we are right at the limit of our borrowing capacity under the existing strategy, particularly since pension funding pressures have added to the borrowing load. This is a problem because we have a new campaign with large capital priorities. Borrowing will be needed to support this effort.

Although this report, as in previous years, includes projections using existing accounting rules, we will be changing our accounting practices effective April 30, 2013, which could change our balance sheet in a favourable way, yielding more borrowing capacity. However, we don't believe that it is appropriate to borrow more simply because changing accounting practices make our balance sheet look better. We want to continue to manage borrowing in a strategic way, as a scarce resource, in absolute terms and in comparison to our peers.

This report also continues to examine how we compare to our peers in relative indebtedness, and the results are positive. These comparisons (selected Moody's U.S. Public College and University Medians 2010) indicate that the University has borrowed less than our external peers and that we have more or comparable resources to support debt issuance. Our credit ratings continue to be high (Moody's Aa1, negative outlook, DBRS AA stable outlook and S&P AA negative outlook) although the size of the pension deficit is cited as a challenge. Debt service and debt repayments continue to be reasonable. These results, which reflect a number of benchmarking factors, show that it may be reasonable to add very modestly to our borrowing capacity.

We are working on a detailed review of the current strategy. Business Board can expect to hear more on this in the coming months.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

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RECOMMENDATION:

For information.